

If the Twentieth Century proved anything, it is that the single greatest danger to human life are the thugs of the centralized political State, who extinguished more than 170 million souls during the bloodiest rampage in recorded history. By any rational standard, modern States are the last and greatest remaining predators – and that the danger has not abated with the demise of communism and fascism. All Western democracies currently face vast and accelerating escalations of State power and centralized control over economic and civic life. In almost all Western democracies, the State chooses:

- where children go to school, and how they will be educated
- the interest rate citizens can borrow at
- the value of currency
- how employees can be hired and fired
- how more than 50% of their citizens' time and money are disposed of
- who a citizen's doctor is
- what kinds of medical procedures can be received – and when
- when to go to war
- who can live in the country
- ...just to touch on a few.

Most of these amazing intrusions into personal liberty have occurred over the past 90 years, since the introduction of the income tax. They have been accepted by a population helpless to challenge the endless expansions of State power – and yet, even though most citizens have received endless pro-State propaganda in government schools, a growing rebellion is brewing. State predations are now so intrusive that they have effectively arrested the forward momentum of society, which now hangs before a fall. Children are poorly educated, young people are unable to get ahead, couples with children fall ever-further into debt, and the elderly are finding State medical systems collapsing under the weight of their growing needs – and State debts continue to grow.

Thus, these early years of the twenty-first century are the end of an era, a collapse of mythology comparable to the fall of fascism, communism, monarchy, or political Christianity. The idea that the State is capable of solving social problems is now viewed with great skepticism – which foretells a coming change. As soon as skepticism is applied to the State, the State falls, since it fails at everything except increasing its power, and so can only survive on propaganda, which relies on unquestioning faith.

Yet while most people are comfortable with the idea of reducing the size and power of the State, they become distinctly uncomfortable with the idea of getting rid of it completely. To use a medical metaphor, if the State is a cancer, they prefer medicating it into an unstable remission, rather than eliminating it completely.

This can never work. A central lesson of history is that States are parasites which always expand until they destroy their host population. Because the State uses violence to achieve its ends – and there is no rational end to the expansion of violence – States grow until they destroy civilized interaction through the corruption of money, contracts, honesty, family, and self-reliance. As such, the cancerous metaphor is not misplaced. People who believe that the State can somehow be contained have not accepted the fact that no State in history has ever *been* contained.

Even the rare reductions are merely temporary. The United States was founded on the principle of limited government; it took little more than a century for the State to break the bonds of the Constitution, implement

the income tax, take control of the money supply and the educational system, and begin its catastrophic expansion. There is no example in history of a State being permanently reduced in size. All that happens during a tax or civil revolt is that the State retrenches, figures out what it did wrong, and plans its expansion again. Or provokes a war, which silences all but fringe dissenters.

Given these well-known historical facts, why do still people believe that such a deadly predator can be tamed? Surely it can only be because they consider a slow strangulation in the grip of an expanding State somehow better than the quick death of a society bereft of a State.

Why, then, do most people believe that a society will crumble without a coercive and monopolistic social agency at its core? There are a number of answers to this question, but generally they tend to revolve around three central points:

- dispute resolution;
- collective services; and,
- pollution.

Dispute Resolution

The fact that people still cling to the belief that the State is required to resolve disputes is amazing, since modern courts are out of the reach of all but the most wealthy and patient, and are primarily used to shield the powerful from competition or criticism. In this writer's experience, to take a dispute with a stockbroker to the court system would have cost more than a quarter of a million dollars and taken from five to ten years – however, a private mediator settled the matter within a few months for very little money. In the realm of marital dissolution, private mediators are commonplace. Unions use grievance processes, and a plethora of other specialists in dispute resolution have sprung up to fill in the void left by a ridiculously lengthy, expensive and incompetent State court system.

Thus the belief that the State is required for dispute resolution is obviously false, since the court apparatus is unavailable to the vast majority of the population, who resolve their disputes either privately or through agreed-upon mediators.

How can the free market deal with the problem of dispute resolution? Outside the realm of organized crime, very few people are comfortable with armed confrontations, and so generally prefer to delegate that task to others. Let's assume that people's need for such representatives produces Dispute Resolution Organizations (DROs), which promise to resolve disputes on their behalf.

Thus, if Stan is hired by Bob, they both sign a document specifying which DRO they both accept as an authority in dispute resolution. If they disagree about something, and are unable to resolve it between themselves, they submit their case to the DRO, and agree to abide by that DRO's decision.

So far so good. However, what if Stan decides he doesn't want to abide by the DRO's decision? Well, several options arise.

First of all, when Stan signed the DRO agreement, it is likely that he would have agreed to property confiscation if he did not abide by the DRO's decision. Thus the DRO would be entirely within its right to go and remove property from Stan – by force if necessary – to pay for his side of the dispute.

It is at this point that people generally throw up their arms and dismiss the idea of DROs by claiming that society would descend into civil war within a few days.

Everyone, of course, realizes that civil war is a rather bad situation, and so it seems likely that the DROs would consider alternatives to armed combat.

What other options could be pursued? To take a current example, small debts which are not worth pursuing legally are still regularly paid off – and why? Because a group of companies produce *credit ratings* on individuals, and the inconvenience of a lowered credit rating is usually greater than the inconvenience of paying off a small debt. Thus, in the absence of any recourse to force, small debts are usually settled. This is one example of how desired behaviour can be elicited without pulling out a gun or kicking in a door.

Picture for a moment the infinite complexity of modern economic life. Most individuals bind themselves to dozens of contracts, from car loans and mortgages to cell phone contracts, gym membership, condo agreements and so on. To flourish in a free market, a man must honour his contracts. A reputation for honest dealing is the foundation of a successful economic life. Now, few DROs will want to represent a man who regularly breaks contracts, or associates with difficult and litigious people. (For instance, this writer once refrained from entering into a business partnership because the potential partner revealed that he had sued two previous partners.)

Thus if Stan refuses to abide by his DRO's ruling, the DRO has to barely lift a finger to punish him. All the DRO has to do is report Stan's non-compliance to the local *contract-rating* company, who will enter his name into a database of contract violators. Stan's DRO will also probably drop him, or raise his rates considerably.

And so, from an economic standpoint, Stan has just shot himself in the foot. He is now universally known as a man who rejects legitimate DRO rulings that he agreed to accept in advance. What happens when he goes for his next job? What if he decides to eschew employment and start his own company, what happens when he applies for his first lease? Or tries to hire his first employee? Or rent a car, or buy an airline ticket? Or enter into a contract with his first customer? No, in almost every situation, Stan would be far better off to abide by the decision of the DRO. Whatever he has to pay, it is far cheaper than facing the barriers of existing without access to a DRO, or with a record of rejecting a legitimate ruling.

But let's push the theory to the max, to see if it holds. To examine a worst-case scenario, imagine that Stan's employer is an evil man who bribes the DRO to rule in his favour, and the DRO imposes an unconscionable fine – say, one million dollars – on Stan.

First of all, this is such an obvious problem that DROs, to get any business at all, would have to deal with this danger up front. An appeal process to a *different* DRO would have to be part of the contract. DROs would also rigorously vet their own employees for any unexplained income. And, of course, any DRO mediator who corrupted the process would receive perhaps the lowest *contract rating* on the planet, lose his job, and be liable for damages. He would lose everything, and be an economic pariah.

However, to go to the extreme, perhaps the worst has occurred and Stan has been unjustly fined a million dollars due to DRO corruption. Well, he has three alternatives. He can choose not to pay the fine, drop off the DRO map, and work for cash without contracts. Become part of the grey market, in other words. A perfectly respectable choice, if he has been treated unjustly.

However, if Stan is an intelligent and even vaguely entrepreneurial man, he will see the corruption of the DRO as a prime opportunity to start his own, competing DRO, and will write into its base contract clauses to ensure that what happened to him will never happen to anyone who signs on with his new DRO.

Stan's third option is to appeal to the *contract rating* agency. Contract rating agencies need to be as

accurate as possible, since they are attempting to assess real risk. If they believe that the DRO ruled unjustly against Stan, they will lower that *DRO's* contract rating and restore Stan's.

Thus it is inconceivable that violence would be required to enforce all but the most extreme contract violations, since all parties gain the most long-term value by acting honestly. This resolves the problem of instant descent into civil war.

Two other problems exist, however, which must be resolved before the DRO theory starts to become truly tenable.

The first is the challenge of reciprocity, or geography. If Bob has a contract with Jeff, and Jeff moves to a new location not covered by their mutual DRO, what happens? Again, this is such an obvious problem that it would be solved by any competent DRO. People who travel prefer cell phones with the greatest geographical coverage, and so cell phone companies have developed reciprocal agreements for charging competitors. Just as a person's credit rating is available anywhere in the world, so their *contract rating* will also be available, and so there will be no place to hide from a broken contract save by going 'off the grid' completely, which would be economically crippling.

The second problem is the fear that a particular DRO will grow in size and stature to the point where it takes on all the features and properties of a new State.

This is a superstitious fear, because there is no historical example of a private company replacing a political State. While it is true that companies regularly use State coercion to enforce trading restrictions, high tariffs, cartels and other mercantilist tricks, surely this reinforces the danger of the *State*, not the inevitability of companies growing *into* States. All States destroy societies. No company has ever destroyed a society without the aid of the State. Thus the fear that a private company can somehow grow into a State is utterly unfounded in fact, experience, logic and history.

If society becomes frightened of a particular DRO, then it can simply stop doing business with it, which will cause it to collapse. If that DRO, as it collapses, somehow transforms itself from a group of secretaries, statisticians, accountants and contract lawyers into a ruthless domestic militia and successfully takes over society – and how unlikely is that! – then such a State will then be imposed on the general population. However, there are two problems even with this most unlikely scare scenario. First of all, if *any* DRO can take over society and impose itself as a new State, why *only* a DRO? Why not the Rotary Club? Why not a union? Why not the Mafia? The YMCA? The SPCA? Is society to then ban all groups with more than a hundred members? Clearly that is not a feasible solution, and so society must live with the risk of a brutal coup by ninja accountants as much as from any other group.

And, in the final analysis, if society is so terrified of a single group seizing a monopoly of political power, what does that say about the existing States? *They* have a monopoly of political power. If a DRO should never achieve this kind of control, why should existing States continue to wield theirs?

Collective Services

Roads, sewage, water and electricity and so on are also cited as reasons why a State must exist. How roads could be privately paid for remains such an impenetrable mystery that most people are willing to support the State – and so ensure the eventual and utter destruction of civil society – rather than cede that this problem just *might* solvable. There are many ways to pay for roads, such as electronic or cash tolls, GPS charges, roads maintained by the businesses they lead to, communal organizations and so on. And if none of those work? Why, then personal flying machines will hit the market!

The problem that a water company might build plumbing to a community, and then charge exorbitant fees for supplying it, is equally easy to counter. A truck could deliver bottled water, or the community could invest in a water tower, a competing company could build alternate pipes and so on. None of these problems touch the central rationale for a State. They are *ex post facto* justifications made to avoid the need for critical examination or, heaven forbid, political action. The argument that voluntary free-market monopolies are bad – and that the only way to combat them is to impose compulsory monopolies – is obviously foolish. If voluntary monopolies are bad, then how can coercive monopolies be better?

Due to countless examples of free market solutions to the problem of ‘carrier costs’, this argument no longer holds the kind of water it used to, so it must be elsewhere that people must turn to justify the continued existence of the State.

Pollution

This is perhaps the greatest problem faced by free-market theorists. It’s worth spending a little time on outlining the worst possible scenario, and see how a voluntary system could solve it. However, it’s important to first dispel the notion that the State currently deals effectively with pollution. Firstly, the most polluted resources on the planet are State-owned, because State personnel do not personally profit from retaining the value of State property (witness the destruction of the Canadian cod industry through blatant vote-buying). Secondly, the distribution of mineral, lumber and drilling rights is directly skewed towards bribery and corruption, because States rarely sell the land, but rather just the resource rights. A lumber company cannot buy woodlands from the State, just the right to harvest trees. Thus the State gets a renewable source of income, and can further coerce lumber companies by enforcing re-seeding. This, of course, tends to promote bribery, corruption and the creation of ‘fly-by-night’ lumber companies which strip the land bare, but vanish when it comes time to re-seed. Auctioning State land to a private market easily solves this problem, because a company which re-seeded would reap the greatest long-term profits from woodland, and so would be able to bid the most for the land.

Also, it should be remembered that, in the realm of air pollution, governments created the problem in the first place. In 19th century England, when industrial smokestacks began belching fumes into the orchards of apple farmers, the farmers took the factory-owners to court, citing the common-law tradition of restitution for property damage. Naturally, the capitalists had gotten to the State courts first, and had more money to bribe with, employed more voting workers, and contributed more tax revenue than the farmers – and so the farmers’ cases were thrown out of court. The judge argued that the ‘common good’ of the factories took precedence over the ‘private need’ of the farmers. The free market did not fail to solve the problem of air pollution – it was forcibly prevented from doing so through State corruption.

The State, then, is no friend of the environment – but how would the free market handle it? One egregious example often cited is a group of houses downwind from a new factory which works day and night to coat them in soot.

When a man buys a new house, isn’t it important to him to ensure that it won’t be subjected with someone else’s pollution? People’s desire for a clean and safe environment is so strong that it’s a clear invitation for enterprising capitalists to sweat bullets figuring out how to provide it.

Fortunately, since we have already talked about DROs and their role in a free market, the problem of air pollution can be solved quite easily.

If the aforementioned group of homeowners is afraid of pollution, the first thing they will do is buy *pollution insurance*, which is a natural response to a situation where costs cannot be predicted but consequences

are dire. Let's say that a homeowner named Achmed buys pollution insurance which pays him two million dollars if the air around or in his house becomes polluted in some predefined manner. In other words, as long as Achmed's air remains clean, the insurance company makes money.

One day, a plot of land upwind of Achmed's house comes up for sale. Naturally, his insurance company would be very interested in this, and would monitor the sale. If the purchaser is some private school, all is well (assuming Achmed has not bought an excess of noise pollution insurance!). If, however, the insurance company discovers that Sally's House of Polluting Paint Production is interested in purchasing the plot of land, then it will likely spring into action, taking one of the following actions:

- buying the land itself, then selling it to a non-polluting buyer;
- getting assurances from Sally that her company will not pollute;
- paying Sally to enter into a non-polluting contract.

If, however, someone at the insurance company is asleep at the wheel, and Sally buys the land and puts up her polluting factory, what happens then?

Well, then the insurance company is on the hook for \$2M to Achmed (assuming for the moment that only Achmed bought pollution insurance). *Thus, it can afford to pay Sally up to \$2M to reduce her pollution and still be cash-positive.* This payment could take many forms, from the installation of pollution-control equipment to a buy-out to a subsidy for under-production and so on.

If the \$2M is not enough to solve the problem, then the insurance company pays Achmed the \$2M and he goes and buys a new house in an unpolluted neighbourhood. However, this scenario is highly unlikely, since the insurance company would be unlikely to insure only one single person in a neighbourhood against air pollution – and a single person probably could not afford it!

So, that is the view from Achmed's air-pollution insurance company. What about the view from Sally's House of Polluting Paint Production? She, also, must be covered by a DRO in order to buy land, borrow money and hire employees. How does that DRO view her tendency to pollute?

Pollution brings damage claims against Sally, because pollution is by definition damage to persons or property. Thus Sally's DRO would take a dim view of her polluting activities, since it would be on the hook for any property damage her factory causes. In fact, it would be most unlikely that Sally's DRO would insure her against damages unless she were able to prove that she would be able to operate her factory *without* harming the property of those around her. And without access to a DRO, of course, she would be hard-pressed to start her factory, borrow money, hire employees etc.

It's important to remember that DROs, much like cell phone companies and Internet providers, only prosper if they cooperate. Sally's DRO only makes money if Sally does not pollute. Achmed's insurer also only makes money if Sally does not pollute. Thus the two companies share a common goal, which fosters cooperation.

Finally, even if Achmed is not insured against air pollution, he can use his and/or Sally's DRO to gain restitution for the damage her pollution is causing to his property. Both Sally and Achmed's DROs would have reciprocity agreements, since Achmed wants to be protected against Sally's actions, and Sally wants to be protected against Achmed's actions. Because of this desire for mutual protection, they would choose DROs which had the widest reciprocity agreements.

Thus, in a truly free market, there are many levels and agencies actively working against pollution. Achmed's insurer will be actively scanning the surroundings looking for polluters it can forestall. Sally will

be unable to build her paint factory without proving that she will not pollute. Mutual or independent DROs will resolve any disputes regarding property damage caused by Sally's pollution.

There are other benefits as well, which are almost unsolvable in the current system. Imagine that Sally's smokestacks are so high that her air pollution sails over Achmed's house and lands on Reginald's house, a hundred miles away. Reginald then complains to his DRO that his property is being damaged. His DRO will examine the air contents and wind currents, then trace the pollution back to its source and resolve the dispute with Sally's DRO. If the air pollution is particularly complicated, then Reginald's DRO will place non-volatile compounds into Sally's smokestacks and follow them to where they land. This can be used in a situation where a number of different factories may be contributing pollutants.

The problem of inter-country air pollution may seem to be a sticky one, but it's easily solvable. Obviously, a Canadian living along the Canada/US border, for instance, will not choose a DRO which refuses to cover air pollution emanating from the US. Thus the DRO will have to have reciprocity agreements with the DROs across the border. If the US DROs refuse to have reciprocity agreements with the Canadian DROs – inconceivable, since the pollution can go both ways – then the Canadian DRO will simply start a US branch and compete.

The difference is that international DROs actually *profit* from cooperation, in a way that governments do not. For instance, a State government on the Canada/US border has little motivation to impose pollution costs on local factories, as long as the pollution generally goes north. For DROs, quite the opposite would be true.

Finally, one other advantage to DRO's can be termed the 'Scrabble-Challenge Benefit'. In Scrabble, an accuser loses his turn if he challenges another player's word and the challenge fails. Given the costs of resolving disputes, DROs would be very careful to ensure that those bringing false accusations would be punished through their own premiums, their *contract ratings* and by also assuming the entire cost of the dispute. This would greatly reduce the number of frivolous lawsuits, to the great benefit of all.

The idea that society can *only* survive in the absence of a centralized State is the greatest lesson that the grisly years of the Twentieth Century can teach us. Our choice is not between the free market and the State, but between life and death. Whatever the risks involved in dissolving the central State, they are far less than the certain destruction which will result from its inevitable escalation. Like a cancer patient facing certain demise, we must open our minds reach for whatever medicine shows the most promise, and not wait until it is too late.

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